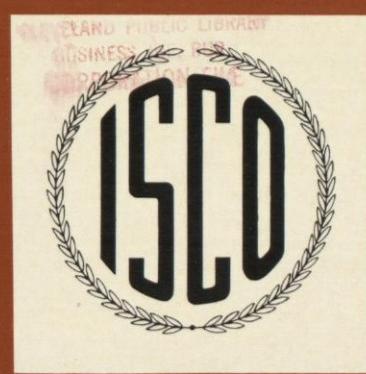


**1954
ANNUAL
REPORT**

International Shoe Company



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INTERNATIONAL SHOE COMPANY



Summary Description of the Business of the International Shoe Company and its Subsidiaries

PRODUCTION:

The Company manufactures a complete line of men's, women's and children's shoes.

The Company also manufactures for its own use in the manufacture of shoes, upper leather, sole leather, rubber heels, rubber soles, cotton cloth for linings, chemicals, cements, leather welting and other items.

DISTRIBUTION AT WHOLESALE LEVEL:

Through its selling divisions, the Company distributes the shoes it produces throughout the United States and its possessions and to foreign countries where satisfactory trade relations can be carried on under existing government restrictions.

DISTRIBUTION AT RETAIL LEVEL:

At the retail level, by far the greater part of the Company's shoes is distributed through more than 30,000 independent retailers. A part goes through large and small chain organizations. Less than 5% of the Company's shoes are distributed through retail stores owned by the Company or its subsidiaries.

Through its subsidiary, Shoenterprise Corporation, the Company finances the setting up of independently owned and operated retail shoe outlets in locations where the Company's distribution is unsatisfactory. In a very few situations, where necessary to protect distribution, this subsidiary acquires majority ownership of key retail shoe outlets.

SUBSIDIARIES:

This consolidated report includes the affairs and accounts of its subsidiary corporations, all of which are engaged in businesses directly related to that of the Company. Five of these subsidiaries are of significant size:

THE FLORSHEIM SHOE COMPANY which manufactures and distributes Florsheim shoes for men and women.

SAVAGE SHOES, LIMITED, which manufactures children's and growing girls' shoes in Canada.

SHOENTERPRISE CORPORATION

TWELFTH-DELMAR REALTY COMPANY which owns and operates the Central Terminal Building in St. Louis, Missouri with International Shoe Company as the principal tenant.

BURK BROTHERS which operates one tannery in Philadelphia, Pennsylvania.

**43rd
ANNUAL
REPORT**

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DIRECTORS

CARL E. BRUECKMANN
HAROLD M. FLORSHEIM
IRVING S. FLORSHEIM
BYRON A. GRAY
CLEMENCE L. HEIN
PAUL B. JAMISON
ANDREW W. JOHNSON
J. LEE JOHNSON
LEE C. MCKINLEY
ROBERT O. MONNIG
HAROLD F. OYAAS
OLIVER F. PETERS
JAMES T. PETTUS
EDGAR E. RAND
HENRY H. RAND
REZIN H. RICHARDS
RICHARD O. RUMER
ALBERT V. WHEELER

OFFICERS

BYRON A. GRAY
Chairman of the Board
EDGAR E. RAND
President
ANDREW W. JOHNSON
Vice-President and Treasurer
OLIVER F. PETERS
Vice-President
HENRY H. RAND
Vice-President
ROBERT O. MONNIG
Vice-President and Comptroller
J. LEE JOHNSON
Vice-President
REZIN H. RICHARDS
Vice-President
CARL E. BRUECKMANN
Secretary and Asst. Treasurer
WARREN P. METZ
Asst. Secretary
WILLIAM J. BANKS
Asst. Comptroller

GENERAL OFFICES
1509 Washington Ave.
St. Louis 3, Mo.

**THE ANNUAL MEETING OF STOCKHOLDERS
WILL BE HELD AT 10:00 A. M. ON FEBRUARY 28, 1955
AT THE COMPANY'S GENERAL OFFICES,
1509 WASHINGTON AVENUE, ST. LOUIS, MISSOURI**

TRANSFER AGENTS
Manufacturers Trust Company
New York, N. Y.
Mercantile Trust Company
St. Louis, Mo.

REGISTRARS
Guaranty Trust Company
New York, N. Y.
St. Louis Union Trust Company
St. Louis, Mo.

HIGHLIGHTS OF THE YEAR 1954...

Fiscal Years Ended November 30	1954	1953	Increase or (Decrease)	Per Cent
Net Sales	\$246,764,550	\$251,027,699	\$(4,263,149)	(2)
Civilian	244,939,894	247,124,486	(2,184,592)	(1)
Military	1,824,656	3,903,213	(2,078,557)	(53)
Income before Federal and Canadian Income Taxes	21,659,431	19,508,358	2,151,073	11
Federal and Canadian Taxes on Income	11,592,019	9,687,105	1,904,914	20
*Net Income	10,203,110	9,930,720	272,390	3
Percent of Net Sales	4.1	4.0	.1	
Per Share	3.01	2.93	.08	3
Total Dividends Paid	8,130,967	8,138,647	(7,680)	
Dividends per Share	2.40	2.40		
Income Retained	2,072,143	1,792,073	280,070	16
Current Assets	\$124,309,975	\$125,951,387	\$(1,641,412)	(1)
Current Liabilities	38,704,152	39,608,412	(904,260)	(2)
Working Capital	85,605,823	86,342,975	(737,152)	(1)
Working Capital Ratio	3.2	3.2		
Employees' Notes Receivable	\$ 3,103,110	\$ 3,484,698	\$(381,588)	(11)
Customers' Loans Receivable	5,076,059	5,156,806	(80,747)	(2)
Long-Term Debt	33,552,278	34,957,352	(1,405,074)	(4)
Net Physical Properties	\$ 35,787,477	\$ 33,217,216	\$ 2,570,261	8
Maintenance and Repairs	4,047,177	4,184,790	(137,613)	(3)
Depreciation	2,661,523	2,388,538	272,985	11
Accumulated Depreciation	40,728,756	38,479,777	2,248,979	6
Production in Pairs	50,775,312	55,556,682	(4,781,370)	(9)
Civilian	50,490,260	55,039,790	(4,549,530)	(8)
Military	285,052	516,892	(231,840)	(45)

*After adjustment for minority interests.

Detailed financial statements are presented beginning on Page 10 of this report.

ANNUAL MESSAGE

... to our Stockholders

from the Chairman of the Board and the President

HIghlights of our Company's results on the opposite page will provide you with a quick rundown—in terms of figures—on our fiscal year 1954. Brief comments on these and other significant matters follow. Other pages of the report provide more complete information.

Consolidated net sales showed a decrease of about 2% from the prior year. Approximately 50% of the decrease was in military sales. Civilian sales decreased slightly less than 1%.

Consolidated net income before taxes was \$2,151,073 more than in the preceding year. After taxes, net income was 3% greater.

Per share net income amounted to \$3.01 compared with \$2.93 in 1953.

Dividends were \$2.40 per share, same as in the previous year. The 175th consecutive dividend on our Company's stock was paid on January 1, 1955, completing 42 years of uninterrupted dividend payments.

The year-to-year comparisons are affected somewhat by the acquisition of The Florsheim Shoe Company on March 10, 1953 and consequently by the inclusion of the Florsheim results for the full year in 1954 and for about nine months in 1953. Other acquisitions did not influence the comparisons significantly.

Our Company's decrease in production of approximately 8½% is greater than the decrease which the revised Bureau of Census reports on the industry production for 1954 and 1953 will show. However, based on a careful study of considerable but incomplete information available at this time concerning sales at retail as well as wholesale, it appears that our Company's showing is in line with that of the industry in the price and quality categories in which our Company operates.

Savage Shoes, Limited, of Canada, was acquired on September 24, 1954. Largest in Canada, Savage Shoes represents an excellent entry for our Company into the Canadian market.

The Florsheim Shoe Company had a very good year in 1954, and as of this writing has a good 1955 in prospect. When Florsheim was acquired early in 1953, your management be-

lieved it had caused our Company to buy a good business at a fair price. This was confirmed at the end of 1953. It is again confirmed at the end of 1954, and it appears that it will be reconfirmed at the end of 1955.

The Bryan, Texas, plant for the processing of rubber composition heelng and soling materials was completed during 1954 and began operation in May. Development of an efficient, economical operation continued throughout the remainder of the year and prospects are for profitable operation early in 1955.

Shoenterprise Corporation continues as a valuable aid in the establishment of satisfactory retail outlets for our products where such outlets are lacking.

Lefatex, Incorporated was formed in 1954 to conduct the business set up under the agreement reached in 1953 between our Company and George O. Jenkins Co. with Salamander Aktiengesellschaft of Kornwestheim (Bei Stuttgart) Germany, for the American manu-



Edgar E. Rand, President and Byron A. Gray, Chairman of the Board.

facture and distribution of leather fibreboards developed by Salamander. The plant is being completed and operations should begin in 1955.

Our employee relations were good throughout 1954 and we look for the same in 1955. Agreements reached with principal employee representative groups in the fall of 1953 were for two years. Consequently there will be no increase in the cost of labor and fringe benefits in 1955 over what they were in 1954, unless there is a rise in the cost-of-living index sufficient to cause a corresponding increase in the wage rates as provided by these principal contracts.

Hide and leather prices were comparatively level throughout 1954. Fluctuation in these prices was less than that experienced in any year since war-time restrictions were removed. Shoe prices remained steady. No change in our basic shoe prices has occurred during the past two years.

The use of capital at all points in our Company's operations is being studied in relation to its profit productivity as against the possibility of discontinuing or reducing investments which do not result in a satisfactory yield. Our consolidated statement shows a reduction in long-term debt of about \$1.4 million at November 30, 1954, compared with the end of 1953. Short-term borrowing amounted to \$10.7 million at the end of 1954 compared with \$14.5 million at the end of 1953. In combination this is a reduction in debt of approximately \$5 million during the year.

The Twelfth-Delmar Realty Company, a wholly-owned subsidiary, operating the 700,000 square-foot Central Terminal Building, one of the finest warehouse and office buildings in St. Louis, completed its sixth year since it acquired the building in 1948. A mortgage debt of \$3,100,000 at the time of acquisition has been reduced to \$2,299,998. The building has been well maintained and occupancy has been near 100%.

The Company continued its plan of interesting executive personnel in the stock of our Company and options on 30,650 shares of the Company's common stock at \$40 per share were

granted to these employees on October 18, 1954, exercisable at the end of five years. The option plan differs from the stock purchase plan previously used, but the purpose is identical, and the option arrangement appears more advantageous to both the employees and the Company.

Comment on the total industry volume is difficult at this time because of the recent revisions made by the Bureau of Census in its statistical work connected with reporting shoe industry production. Its revisions had the effect of increasing the reported industry production for the most recent year by 30 million pairs, an increase of about 6%. For the time being these Census Bureau revisions cloud the atmosphere. A clearer view of the industry situation will be had at a later date some months hence.

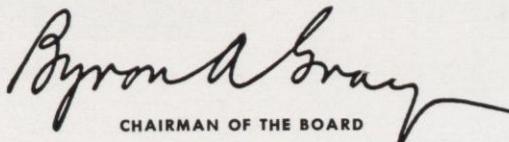
Presently it appears that the shoe industry has completed a 15- to 18-month adjustment period which ran for various producers from dates spread over the first half of 1953 to dates ranging over the last half of 1954. With this correction period ended, we believe that 1955 will be a better year for the industry than was 1954.

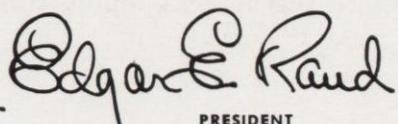
1954 was another good year for our Company. Prospects for 1955 are good. Orders received since our spring 1955 lines were first presented by our salesmen to the retail trade are running ahead of a year ago. This leads to the expectation that production and shipments in 1955 will exceed those of 1954. With several projects initiated during the past year or more about to reach a point of fruition, with steady wage rates, with steady prices for both materials purchased and for shoes sold, and with the prospect of increased volume, your management sees in 1955 the promise of a better year than the one just closed.

We take this occasion to express our management's appreciation of its responsibilities to customers, employees and stockholders and its determination to set the policies of our Company and to manage its affairs so as to benefit these groups equitably and fairly. We thank all of them for their cooperation and loyalty during the year just closed.

FOR THE BOARD OF DIRECTORS

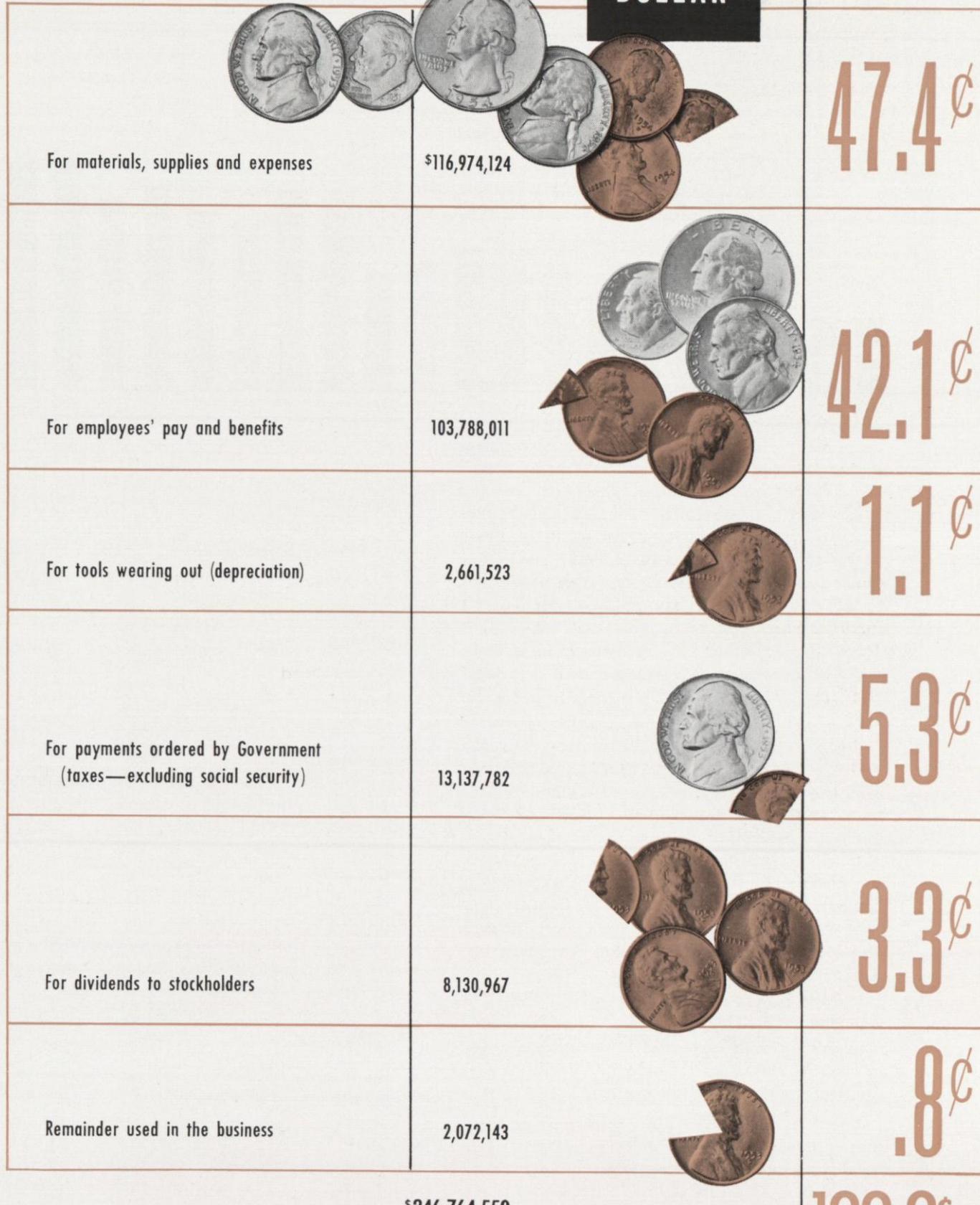
January 6, 1955

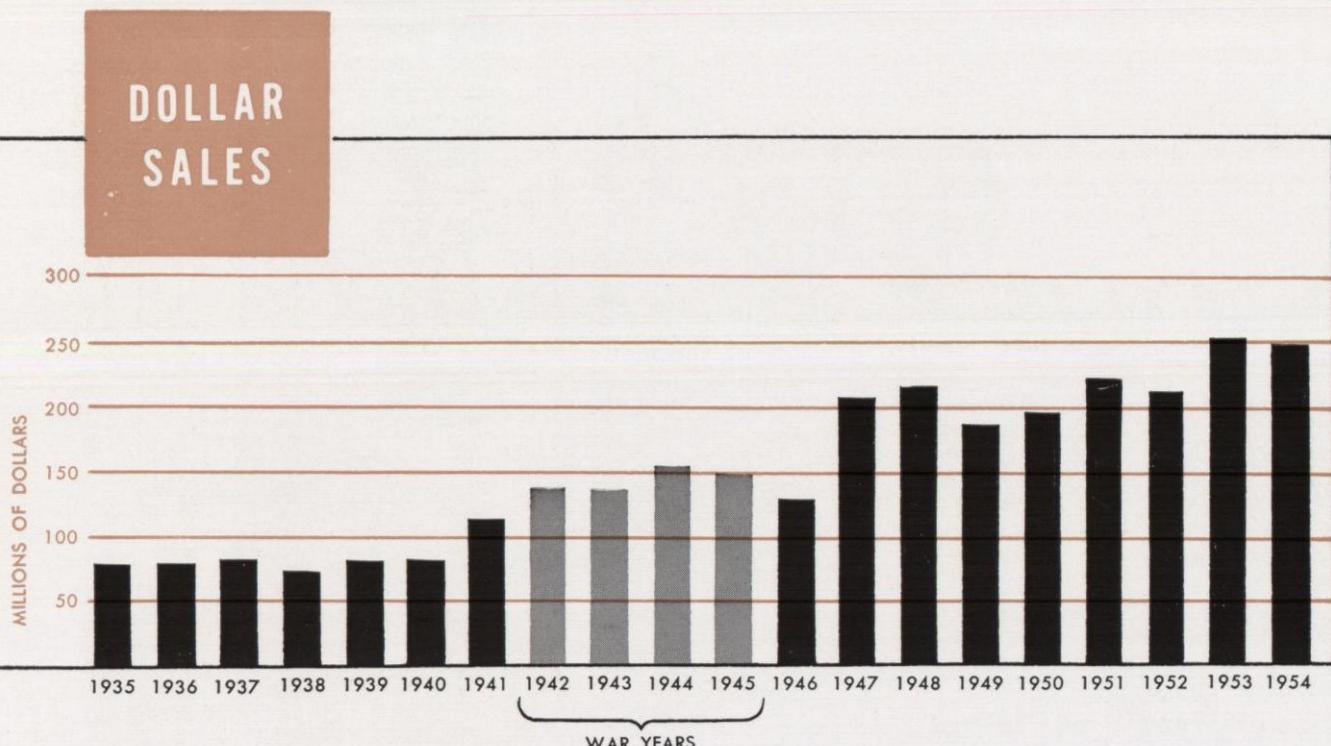

Byron A. Gray
CHAIRMAN OF THE BOARD


Edgar E. Rand
PRESIDENT

HOW WE USED OUR

...1954
SALES
DOLLAR





Sales

The \$246,764,550 of net sales in 1954 represented a decrease of \$4,263,149 from the prior year. Civilian sales of \$244,939,894 showed a decrease of \$2,184,592. Military sales of \$1,824,656 in 1954 compared with \$3,903,213 in 1953. This decrease in military of \$2,078,557 accounted for about 50% of the decline in total sales. Compared with a decrease of 2% in total sales, civilian sales decreased slightly less than 1%.

The sharp drop in military business is in line with the unpredictable year-to-year experience with this type of product. Government procurement varies with government policy. The opportunity to obtain this business on a satisfactory basis depends on a number of factors including the timing by the government procurement departments of their invitations for bids. Peace-time military shoe business is undependable and only nominal amounts enter into our Company plans.

Comparison of civilian sales in 1954 and 1953 was affected by the inclusion of Florsheim sales for a full year in 1954 and about nine months in 1953. If allowance is made for this difference, the decrease in 1954 was about 5%.

Based upon information we have, it appears that individual retailers' sales of shoes in our fiscal year ranged from approximately even to decreases up to 3%. Taken as a whole it is likely

that the decrease averaged approximately 1½%.

During the past two years or more there has been a rather steady increase in the sale of extremely low-priced shoes, for the most part outside the range of medium-priced footwear produced by our Company.

Income

Net income of \$10,203,110 compared with \$9,930,720 for 1953, an increase of \$272,390. Per share net income amounted to \$3.01 versus \$2.93 in 1953.

Income before Federal income taxes amounted to \$21,659,431 compared with \$19,508,358 in 1953, an increase of \$2,151,073.

Failure of our business to show the sales increases in the second half of the year which were confidently expected earlier tended to limit income producing possibilities. The recovery from a relatively quiet period which extended over approximately 18 months appears now to be immediately before us as 1955 opens up.

Dividends

The January 1, 1955, dividend was the 175th consecutive paid on Company stock, completing 42 years of uninterrupted payments. The annual dividend paid in 1954 was \$2.40 per share. This continues the 60¢ quarterly rate which has been paid regularly since April 1, 1950.

Production

The production of our shoe factories amounted to 50.8 million pairs compared with 55.6 million pairs in 1953. This is a decrease of approximately 8½%.

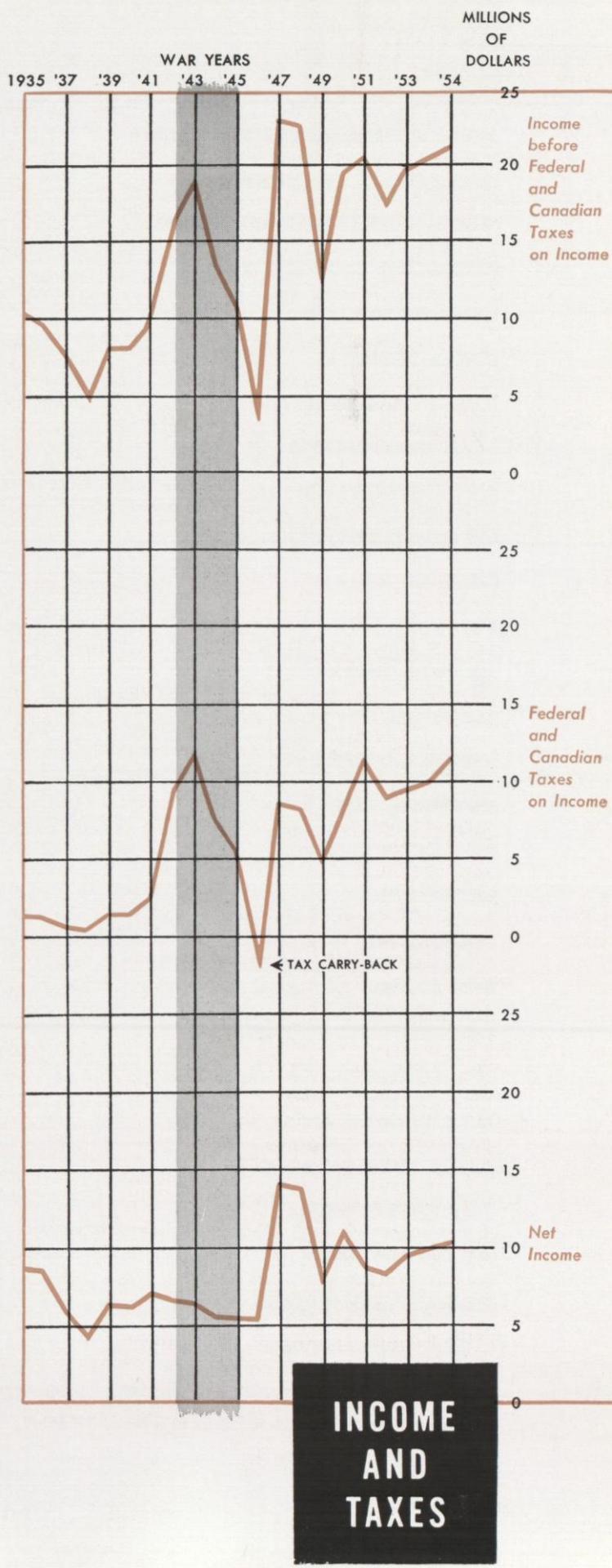
Our other plants produced leather, cut soles, rubber heels and soles, cotton textiles and many other articles in the large quantities shown in the production summary on page 18 for use by us in the manufacture of shoes.

Based on the preliminary production figures for the entire shoe industry, it appears that the industry will show a decrease of about 3% in the period represented by our fiscal year. Individual categories in the industry figures are expected to range from about even on women's shoes to a loss of about 10% on men's shoes. It appears that our rate of production will be closely in line with that of the industry in the categories in which we produce.

Recently the Bureau of Census revised its statistical work connected with reporting shoe industry production. Its revisions have the effect of increasing the reported total industry production for the most recent year by 30 million pairs, an increase of about 6%. This blurs the picture and for the time being makes it difficult to discern trends in the industry and to judge relative showings of individual members.

We are well aware of the Bureau's problems in performing this valuable service of providing statistics for the industry. The industry is made up of many units, each one somewhat different from all others, many highly specialized.

The increasing importance of fashion provides opportunities for capable one-factory companies under the leadership of one or two men of unusual talent and energy. The same fashion element, however, brings the swift changes that occur in the whim and caprice of the fashion-minded public with the result that the record of the industry is full of companies which grew rapidly, blossomed and in some cases faded in a comparatively few years. Because of this shifting, changing segment in the make-up of the industry, we are very appreciative of the difficulties experienced by the Bureau of Census in maintaining statistical methods and procedures which give production information that is reasonably accurate and consistent enough to afford year-to-year and longer-term comparisons of value.



DIVIDENDS & EARNINGS

Company pays its 175th Dividend



Dividend Per Share on Common Stock Net Income Per Share on Common Stock

Costs and Prices

Price stability was more marked in 1954 than for many years. Shoe prices have now remained basically unchanged for two years. Hide and leather prices held fairly level throughout 1954. This provided a more favorable relationship in the prices of raw materials and finished shoes.

However, this was offset by the added cost of accident and health, hospital and surgical insurance as well as a third week of vacation. The cost of these items, which were provided as additional benefits in 1954 under our principal employee contracts, amounted to approximately \$1½ million. Social security taxes increased ½ of 1%, an amount approximating \$500,000. Final net income was also affected by the lower rate of production and sales.

Taxes

The 1954 Tax Law provided for the continuation for one year of the 52% corporation income tax rate which was scheduled to drop to 47% on April 1, 1954 under prior law. However, present prospects are dim that the reduced rate will go into effect on April 1, 1955 as scheduled in the 1954 law.

During the year our Company received from the Treasury Department payment of the claim which has been shown in our financial statement since 1947 as federal income taxes recoverable under Section 22(d) (6) in the amount of \$676,077. The amount finally allowed was exactly the amount claimed.

In 1943 the Company filed a claim for recovery of excess profits taxes under Section 722 of I.R.C. Additional claims have been filed for succeeding years in which World War II excess profits taxes were paid. These claims have been prosecuted diligently and we are hopeful that they will be brought to a conclusion in the not too distant future.

Executive Employees Stock Option Plan

On October 12 the Board of Directors authorized the granting of options to purchase Company stock to certain selected executive and administrative employees.

On October 18, options were granted to these employees for the purchase of 30,650 shares of the corporation's common stock at \$40 per share, exercisable October 18, 1959.

The option plan differs from the stock purchase plan previously used; however, its purpose is identical and it appears more advantageous to both the employees and the Company.

Source and Distribution of Funds

Funds were acquired from sources as follows:

Net income for the year	\$ 10,203,110
Depreciation of physical properties	2,661,523
Reduction of working capital	737,152
Investments transferred to subsidiary status	927,921
Recovery of federal income tax under Section 22 (d) (6) I. R. C.	676,077
Decrease in employees' notes receivable	381,588
Decrease in customers' loans receivable	80,747
	<u><u>\$15,668,118</u></u>

These funds were distributed as follows:

Dividends paid, on parent company's capital stock	\$ 8,130,967
Net additions to physical properties	5,231,784
Net decrease in long-term indebtedness	1,405,074
Increase in excess of investment over equity in subsidiaries (net)	268,850
Additions to deferred charges	244,327
Acquisition of parent company's own common stock	179,925
Increase in investments	191,296
Acquisition of minority interests in subsidiary companies	15,895
	<u><u>\$15,668,118</u></u>

Significant items reflected in the net additions to physical properties were the completion of the Bryan, Texas, rubber plant and the plant values of Savage Shoes Limited. Other than these, the additions were principally normal replacements.

The net decrease in long-term indebtedness resulted from:

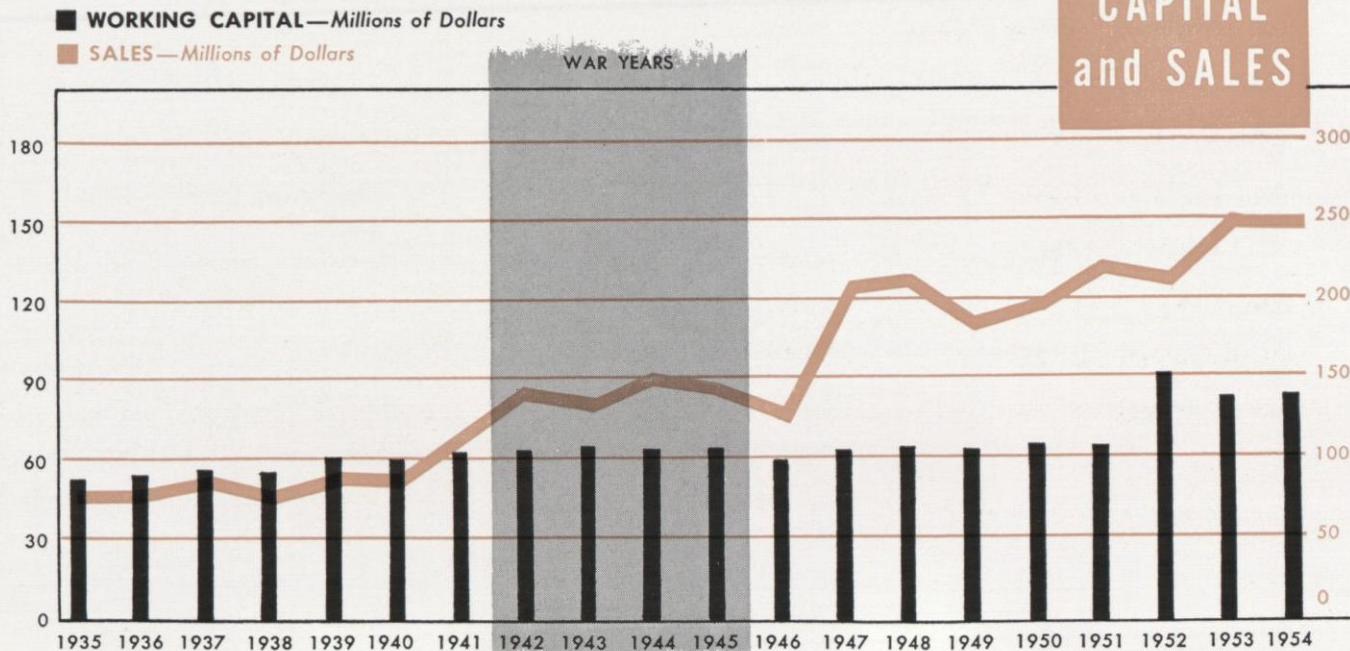
- (a) A decrease of \$2,008,823 in the 2 3/4% promissory notes of The Florsheim Shoe Company.
- (b) Inclusion in long-term indebtedness of

\$100,000 of 4 1/2% notes and \$603,750 of 5 1/2% debentures of Savage Shoes Limited.

- (c) Payment of \$100,001 on the Twelfth-Delmar Realty Company mortgage notes.

Acquisition of additional stock of two subsidiaries brought Company holdings up to a majority, thus requiring, under Company policy, the transfer of these values from the investment account to other accounts under regular consolidating procedures.

WORKING CAPITAL and SALES



CURRENT ASSETS:

	November 30, 1954	1953
Cash	\$ 9,392,624	\$ 10,124,270
United States Government securities, at cost	<u>1,050,000</u>	<u>1,402,708</u>
Receivables—trade and sundry, less allowance for cash discounts and doubtful receivables	<u>40,334,947</u>	<u>41,027,942</u>
Inventories (Note 2)	<u>72,968,219</u>	<u>72,821,674</u>
Prepaid expenses, insurance premiums, taxes and sundry	<u>564,185</u>	<u>574,793</u>
Total Current Assets	<u><u>124,309,975</u></u>	<u><u>125,951,387</u></u>

LESS—CURRENT LIABILITIES:

Notes payable to banks	10,087,709	14,000,000
Long-term debt, current maturities (Note 4)	<u>602,389</u>	<u>500,490</u>
Accounts payable and accrued expenses	<u>14,916,079</u>	<u>13,113,235</u>
Employees' income tax withheld from payroll	<u>574,543</u>	<u>854,689</u>
Employees' balances	<u>547,937</u>	<u>457,626</u>
Federal and Canadian taxes on income, estimated	<u>11,975,495</u>	<u>10,682,372</u>
Total Current Liabilities	<u><u>38,704,152</u></u>	<u><u>39,608,412</u></u>
Net Working Capital	<u><u>85,605,823</u></u>	<u><u>86,342,975</u></u>

OTHER ASSETS:

Employees' notes receivable for stock, secured by 110,063 shares and 116,040 shares, respectively, of parent company's common stock	3,103,110	3,484,698
Customers' secured loans receivable, deferred maturities	<u>5,076,059</u>	<u>5,156,806</u>
Investment in stocks of other companies, at cost, and sundry	<u>835,281</u>	<u>1,571,906</u>
Parent company's own common stock, held for resale to employees, 13,797 shares and 9,197 shares, at cost	<u>542,719</u>	<u>362,794</u>
Deferred charges	<u>316,570</u>	<u>72,243</u>
Federal income taxes recoverable under Section 22 (d) (6) I. R. C.	<u>—</u>	<u>676,077</u>
	<u><u>9,873,739</u></u>	<u><u>11,324,524</u></u>
	<u><u>35,787,477</u></u>	<u><u>33,217,216</u></u>
	<u><u>278,620</u></u>	<u><u>9,770</u></u>
	<u><u>131,545,659</u></u>	<u><u>130,894,485</u></u>

DEDUCT:

Long-term debt (Note 4):

3½% promissory notes payable in installments due October 1, 1962 to 1982	30,000,000	30,000,000
2¾% promissory notes payable in semi-annual installments to January 15, 1957, less current maturities	<u>648,530</u>	<u>2,657,353</u>
Mortgage notes payable to banks maturing \$8,333 monthly and balance due November 1, 1956, less current maturities	<u>2,199,998</u>	<u>2,299,999</u>
4½% notes payable in installments due annually November 15, 1956 and November 15, 1957	<u>100,000</u>	<u>—</u>
5½% sinking fund debentures with annual sinking fund requirements of \$48,750 to December 1, 1961 and \$52,500 annually thereafter, less current maturities	<u>603,750</u>	<u>—</u>
Minority interests in subsidiaries	<u>884,421</u>	<u>900,316</u>
	<u><u>34,436,699</u></u>	<u><u>35,857,668</u></u>
Stockholders' Equity	<u><u>\$ 97,108,960</u></u>	<u><u>\$ 95,036,817</u></u>

REPRESENTED BY:

Common stock without nominal or par value:	\$ 51,000,000	\$ 51,000,000
Authorized 4,000,000 shares; issued 3,400,000 shares	<u>1,333,102</u>	<u>1,333,102</u>
Capital in excess of stated amount	<u>44,775,858</u>	<u>42,703,715</u>
Retained earnings (Note 5)	<u><u>\$ 97,108,960</u></u>	<u><u>\$ 95,036,817</u></u>

See accompanying notes to financial statements.

**INTERNATIONAL
SHOE
COMPANY**

CONSOLIDATED INCOME

	<i>Years Ended November 30, 1954</i>	<i>1953</i>
Sales and Other Income:		
Net Sales	\$246,764,550	\$251,027,699
Income from rentals and services	306,083	235,984
Interest and other income	501,315	542,624
	<hr/>	<hr/>
	247,571,948	251,806,307
Deductions:		
Cost of sales, selling, general and administrative expenses (Note 7)	223,893,906	230,138,916
Interest and amortization of expense on long-term debt	1,198,194	1,194,275
Other interest and sundry charges	820,417	964,758
	<hr/>	<hr/>
	225,912,517	232,297,949
Income before Federal and Canadian taxes on income	21,659,431	19,508,358
Federal and Canadian taxes on income, estimated (no excess profits tax)	11,592,019	9,687,105
	<hr/>	<hr/>
Proportion of net loss of subsidiaries applicable to minority interests	10,067,412	9,821,253
	<hr/>	<hr/>
NET INCOME FOR YEAR APPLICABLE TO CAPITAL STOCK OF COMPANY	135,698	109,467
	<hr/>	<hr/>
	\$ 10,203,110	\$ 9,930,720
	<hr/>	<hr/>

CONSOLIDATED RETAINED EARNINGS

	<i>Years Ended November 30, 1954</i>	<i>1953</i>
Balance at beginning of year	\$ 42,703,715	\$ 40,911,642
Net income for year applicable to capital stock of company	10,203,110	9,930,720
	<hr/>	<hr/>
	52,906,825	50,842,362
Dividends on common stock—\$2.40 per share each year	8,130,967	8,138,647
	<hr/>	<hr/>
Balance at end of year	\$ 44,775,858	\$ 42,703,715
	<hr/>	<hr/>

See accompanying notes to financial statements.

**INTERNATIONAL
SHOE
COMPANY**

**NOTES TO
FINANCIAL STATEMENTS...**

(1) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements incorporate the accounts of the Company and its several subsidiaries (including one Canadian). It is the policy of the Company to consolidate all subsidiaries in which percentage of ownership is 51% or more. The operating results from date of acquisition or control of subsidiaries acquired during the year are included in the statement of consolidated income.

Insofar as practicable, all inter-company accounts, transactions and unrealized profit in inventories have been eliminated in consolidation.

(2) INVENTORIES:

A comparison of the inventories November 30, 1954 and 1953 is summarized below:

	1954	1953
Finished shoes.....	\$35,774,348	\$32,258,891
Shoes in process.....	4,450,377	5,064,034
Hides and leather.....	13,330,720	13,909,526
Miscellaneous materials on hand and in process.....	19,412,774	21,589,223
	<u>\$72,968,219</u>	<u>\$72,821,674</u>

Forty-eight percent of the inventories are priced at cost on the last-in, first-out method while the remainder, including all miscellaneous materials and supplies, are priced at the lower of cost (first-in, first-out) or November 30, 1954, replacement market.

(3) PHYSICAL PROPERTIES:

Physical properties at November 30, 1954 and 1953 are summarized as follows:

	1954	1953
Land and water rights.....	\$ 3,456,166	\$ 3,421,306
Buildings and structures....	39,485,774	37,268,993
Machinery and equipment..	33,574,292	31,006,693
Lasts, patterns and dies....	1	1
	<u>\$76,516,233</u>	<u>\$71,696,993</u>
Less accumulated depreciation.....	40,728,756	38,479,777
	<u>\$35,787,477</u>	<u>\$33,217,216</u>

Twelfth-Delmar Realty Company properties (November 30, 1954, net balance \$2,840,100) are pledged as collateral on mortgage notes payable to banks.

(4) LONG-TERM DEBT:

The 3½% promissory notes are payable \$1,125,000 annually 1962 through 1981 with the remainder payable

in 1982. Certain prepayment privileges are allowed in the note agreement.

The 2¾% promissory notes, an obligation of The Florsheim Shoe Company are payable \$204,412 semi-annually to 1957.

The mortgage notes payable to banks, an obligation of Twelfth-Delmar Realty Company, are payable \$8,333 monthly to 1956 with the balance due in 1956.

The 4½% notes payable, an obligation of Savage Shoes Limited, are due in equal installments in 1956 and 1957.

The 5½% sinking fund debentures, an obligation of Savage Shoes Limited, require annual sinking fund payments of \$48,750 to December 1, 1961 and \$52,500 thereafter.

(5) RETAINED EARNINGS RESTRICTIONS:

Under the terms of the agreement relating to the 3½% promissory notes, retained earnings of \$28,470,720 at November 30, 1954, are restricted as to payment of cash dividends on common stock. Retained earnings are further restricted to the extent of \$542,719 as a result of the reacquisition of parent Company's own common stock. In addition the promissory note agreement provides that no payment for such purposes may be made unless consolidated net working capital shall be at least \$50,000,000.

(6) STOCK OPTIONS:

During the year options to purchase common stock of the Company at \$40 per share (market price at date of grant \$41¼) were granted certain executive and administrative employees (including an officer). At November 30, 1954, options were outstanding for 30,650 shares of common stock exercisable October 18, 1959.

(7) CERTAIN CHARGES TO OPERATIONS:

Amounts charged to operations for the year 1954 and 1953 include the following costs and expenses:

	1954	1953
Depreciation of physical properties.....	\$2,661,523	\$2,388,538
Maintenance and repairs....	4,047,177	4,184,790
Taxes other than income taxes	4,635,699	4,285,366
Rentals of real property....	3,204,974	2,210,321
Rentals of shoe machinery....	3,628,634	3,691,439

(8) RENEWAL AGREEMENTS:

Sales during the year to government agencies subject to renegotiation were not material. Renegotiable sales of prior years have been reviewed with no refunds required.

TO THE BOARD OF DIRECTORS,

INTERNATIONAL SHOE COMPANY

We have examined the statement of consolidated financial position of International Shoe Company and subsidiaries as of November 30, 1954 and the related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of consolidated financial position and statements of consolidated income and retained earnings present fairly the financial position of International Shoe Company and subsidiaries at November 30, 1954 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & Co.

St. Louis, Missouri
January 6, 1955

**ACCOUNTANTS'
REPORT**

INTERNATIONAL
SHOE
COMPANY

10-YEAR COMPARISON OF CONSOLIDATED FINANCIAL POSITION

1954 1953 1952 1951 1950 1949 1948 1947 1946 1945

CURRENT ASSETS:										
Cash	\$ 9,392,624	\$ 10,124,270	\$ 22,999,376	\$ 5,991,683	\$ 4,342,111	\$ 5,844,981	\$ 4,637,060	\$ 10,498,601	\$ 6,901,687	\$ 13,248,377
U. S. Government securities	1,050,000	1,402,708	169,452	156,666	151,666	151,666	151,666	2,393,487	6,042,386	19,604,783
Receivables—trade and sundry—net	40,334,947	41,027,942	34,471,764	26,210,939	36,126,748	28,891,357	33,787,010	27,109,511	16,893,662	14,846,250
Inventories	72,968,219	72,821,674	59,050,797	58,673,856	47,763,533	47,673,533	51,689,958	43,415,863	42,122,071	29,932,878
Prepaid expenses	564,185	574,793	975,717	842,262	741,768	675,217	696,008	525,802	543,159	412,608
Refunds of Federal taxes on income from carry back	—	—	—	—	—	—	—	—	—	—
Total current assets	\$124,309,976	\$125,951,387	\$117,667,106	\$91,875,406	\$89,125,826	\$82,603,572	\$90,961,702	\$83,943,264	\$74,713,966	\$78,044,896
LESS—CURRENT LIABILITIES:										
Mortgage notes payable—current maturities	\$ 602,389	\$ 500,490	\$ 2,491,666	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	—
Noles payable to banks	10,087,709	14,000,000	—	—	—	—	3,000,000	5,000,000	—	—
Accounts payable and accrued expenses	14,916,079	13,113,235	12,842,272	9,347,708	12,227,226	8,860,138	10,573,858	\$ 9,664,675	\$ 10,690,654	\$ 5,581,144
Employees' income tax withheld from payroll	574,543	854,689	900,282	606,339	585,951	364,355	407,989	744,646	554,479	429,416
Stockholders' and employees' balances	547,937	457,626	310,298	252,394	471,289	416,275	546,903	396,913	271,193	342,034
Federal and Canadian taxes on income, estimated	11,975,495	10,682,372	9,030,159	13,508,261	8,255,215	4,742,743	8,861,537	8,958,894	1,699,676	6,015,736
Total current liabilities	\$ 38,704,152	\$ 39,608,412	\$ 25,574,677	\$23,814,702	\$21,639,681	\$17,483,511	\$25,490,287	\$19,765,128	\$13,216,002	\$12,388,330
Net working capital	\$ 85,605,823	\$ 86,342,975	\$ 92,092,429	\$68,060,704	\$67,486,145	\$65,120,061	\$65,471,415	\$64,178,136	\$61,497,964	\$65,676,566
OTHER ASSETS:										
Federal income taxes recoverable under section 22 (d) I. R. C. \$	—	\$ 676,077	\$ 676,077	\$ 676,077	\$ 676,077	\$ 676,077	\$ 3,088,123	\$ 2,674,617	\$ 2,468,200	\$ 1,145,457
Employees' notes receivable for stock, secured	3,103,110	3,484,698	3,170,196	2,025,138	2,361,947	2,295,450	2,400,501	2,482,764	—	—
Customers' secured loans receivable, deferred maturities	5,076,059	5,156,806	3,537,073	1,948,247	1,099,820	—	—	—	—	—
Investments in stocks of other companies, etc. (less reserve)	835,281	1,571,906	684,503	847,820	840,513	895,877	826,590	725,405	548,074	364,313
Company's own common stock	542,719	362,794	281,607	349,894	30,039	—	—	—	243,134	243,134
Deferred charges	316,570	72,243	76,900	8,426,356	\$ 5,847,176	\$ 5,008,396	\$ 3,867,404	\$ 6,315,214	\$ 5,882,786	\$ 3,259,408
Total assets less current liabilities	\$ 9,873,739	\$ 11,324,524	—	—	—	—	—	—	—	\$ 1,752,904
PHYSICAL PROPERTIES:										
Land and water rights	\$ 3,456,166	\$ 3,421,306	\$ 2,933,693	\$ 2,809,600	\$ 2,814,968	\$ 2,857,747	\$ 2,860,405	\$ 1,874,317	\$ 1,898,353	\$ 2,010,802
Buildings and structures	39,485,774	37,268,993	28,413,999	26,978,208	27,953,286	27,975,648	27,461,470	24,005,375	22,393,483	21,720,657
Machinery and equipment	33,574,292	31,006,693	27,042,089	25,724,571	24,721,002	24,942,467	23,889,984	22,754,390	20,994,245	19,935,998
Lasts, patterns, and dies	1	1	1	1	1	1	1	1	1	1
Less depreciation	\$ 40,728,756	\$ 38,479,777	\$ 35,380,035	\$ 33,270,533	\$ 32,019,045	\$ 31,922,539	\$ 30,434,840	29,684,558	29,365,305	28,667,458
Excess of investment over equity in subsidiaries (net)	\$ 35,787,477	\$ 33,217,216	\$ 23,009,747	\$22,241,847	\$22,592,574	\$23,830,962	\$23,777,020	\$18,949,525	\$15,920,777	\$15,000,407
Total assets less current liabilities	\$131,545,659	\$130,894,485	\$123,449,026	\$95,879,598	\$95,087,115	\$92,818,427	\$95,563,649	\$89,010,447	\$80,678,149	\$82,429,877
DEDUCT:										
Long-term debt	Minority interests in subsidiary companies	Reserves	—	—	—	—	—	—	—	—
For excess cost of replacing life inventories	—	—	—	—	—	—	—	65,000	\$ 150,000	\$ 210,000
For insurance	—	—	—	—	—	—	—	608,669	608,669	713,789
For contingencies	—	—	—	—	—	—	—	—	—	1,000,000
Stockholders' equity	\$ 97,108,960	\$ 95,036,817	900,316	214,369	212,923	—	—	\$ 3,665,336	\$ 758,669	\$ 923,789
REPRESENTED BY:	Common stock	Capital in excess of stated amount	\$ 51,000,000	\$ 51,000,000	\$51,000,000	\$2,891,667	\$2,891,667	\$51,000,000	\$51,000,000	\$50,250,000
	44,775,858	1,333,102	42,703,715	40,911,642	40,720,720	1,354,289	1,354,289	37,572,471	35,897,489	29,504,360
	\$ 97,108,960	\$ 95,036,817	\$ 93,234,657	\$93,075,009	\$92,395,448	\$89,926,760	\$89,926,760	\$91,898,313	\$88,251,778	\$80,312,893

**43-YEAR REVIEW OF CONSOLIDATED INCOME,
FEDERAL AND CANADIAN TAXES ON INCOME AND DIVIDENDS**

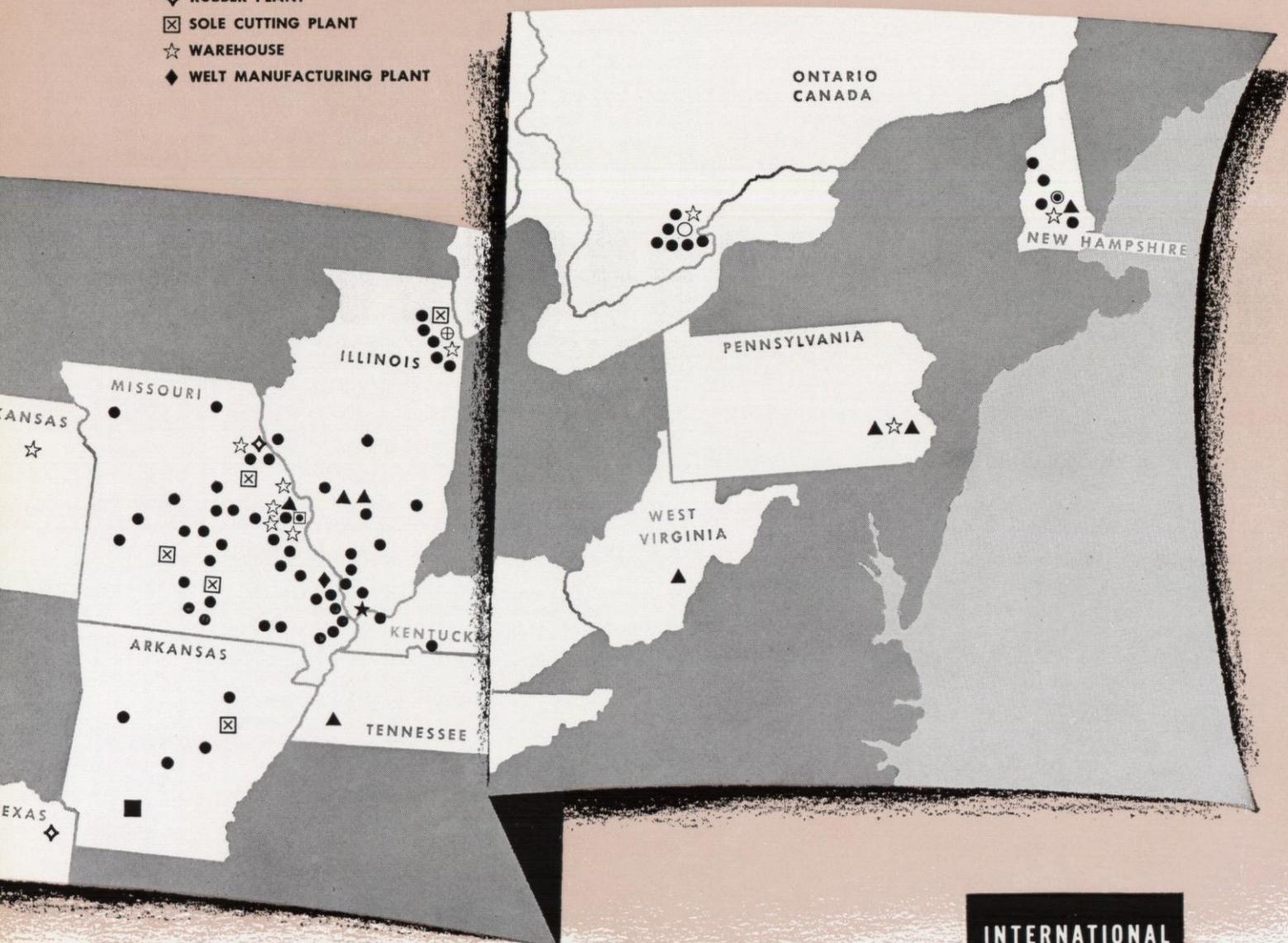
Fiscal Year	Net Sales	Federal and Canadian Taxes on Income (a)	Net Income before Federal and Canadian Taxes	Federal and Canadian Taxes	Dividends Declared on Preferred Stock	Net Income Available for Common Stock	Net Income per Share on Common Stock	Dividend Rate per Share on Common Stock	Shares of Outstanding Common Stock (c)
			\$	\$	\$	\$	\$	\$	
1912	\$ 20,990,643	\$ 1,955,130	\$ 19,308	\$ 1,935,822	\$ 577,500	\$ 1,358,322	\$10.65	\$8,250	127,500(j)
1913	26,005,299	1,834,468	18,762	1,815,706	653,875	1,161,831	9.11	\$7.00	94,250
1914	24,114,860	1,523,619	14,721	1,508,898	659,750	1,145,139	6.66	7.00	94,250
1915	24,439,107	1,822,938	18,049	1,804,889	659,750	1,450,507	27.06	7.00	94,250
1916	33,574,914	4,189,409(d)	79,152	4,110,257(d)	659,750	3,386,855	26.56	7.00	127,500
1917	45,037,293	5,353,980	1,270,000	4,083,980	697,125	2,112,880	16.57	8.00	100,000
1918	50,810,947	4,397,880	1,585,000	2,812,880	700,000	3,967,224	31.11	7.00	100,000
1919	61,247,782	6,917,224	2,250,000	4,667,224	700,000	5,423,384	42.54	8.00	123,500
1920	75,617,895	8,914,491*	2,644,257	6,270,234	846,250	12,617,576	13.71	6.00	127,500
1921	73,839,153	5,025,441	859,247	4,166,194	1,128,190	3,038,004	3.33	1.68	177,643
1922	97,366,403	11,739,821	1,502,864	10,236,956	1,421,753	8,876,888	9.64	2.00	179,142
1923	109,922,738	11,703,988	1,405,347	10,298,641	1,424,000	11,636,795	12.64	2.75	920,000
1924	110,240,651	15,123,263	2,062,468	13,060,795	1,424,000	11,297,444	12.27	4.00	920,000
1925	114,265,987	14,594,410	1,872,965	12,721,444	1,424,000	12,617,576	13.71	6.00	920,000
1926	116,980,835	15,279,118	2,061,542	13,217,576	600,000				
1927	124,306,333	20,478,632	2,780,174	17,698,457	600,000	17,098,457	4.54	1.75	3,760,000(l)
1928	122,694,532	17,973,205	2,211,429	15,761,775	600,000	15,161,775	4.03	2.00	3,760,000
1929	132,110,129	12,207,966	2,176,532	17,031,434	600,000	16,431,434	4.37	2.50	3,760,000
1930	102,393,618	14,597,599	1,723,495	12,874,104	600,000	12,274,104	3.26	3.00	3,760,000
1931	86,802,293	11,088,135	1,343,319	9,744,815	600,000	9,144,815	2.55	3.00	3,510,000
1932	65,488,662	7,729,920	1,082,392	6,647,527	600,000	6,047,527	1.80	2.75	3,350,000
1933	70,343,128	10,764,075	1,673,505	9,090,566	425,810	8,664,756	2.58	2.00	3,350,000
1934	77,168,682	10,866,266	1,889,241	8,967,024		8,967,024	2.67	2.00	3,350,000
1935	83,073,459	10,031,599	1,489,637	8,541,962		8,541,962	2.55	2.25	3,350,000
1936	84,856,709	9,771,444	1,354,517	8,416,926		8,416,926	2.51	2.25	3,350,000
1937	88,278,810	7,394,495	1,127,503	6,266,992		6,266,992	1.87	2.00	3,350,000
1938	80,828,631	4,890,762	622,475	4,268,286		4,268,286	1.27	1.75	3,350,000
1939	89,325,446	8,061,896(e)	1,473,687	6,588,209(e)		6,588,209	1.97	1.75	3,350,000
1940	89,257,329	8,122,117	1,648,505	6,473,611		6,473,611	1.93	1.75	3,350,000
1941	116,530,243	9,691,079	2,484,042	7,207,037		7,207,037	2.15	2.00	3,350,000
1942	144,256,388	16,634,160(f)	9,639,207	6,994,952		6,994,952	2.08	1.80	3,350,000
1943	143,014,252	18,699,794(g)	11,953,882	6,745,912(g)		6,745,912	2.01	1.80	3,350,000
1944	156,869,226	13,236,780	7,257,281	5,979,499		5,979,499	1.78	1.80	3,350,000
1945	149,088,414	10,749,859	5,178,203	5,571,656		5,571,656	1.66	1.80	3,350,000
1946	135,381,520	3,311,780(h)	2,142,767(i)	5,454,547(h)		5,454,547	1.63	1.80	3,350,000
1947	213,325,147	22,616,876	8,600,476	14,016,400		14,016,400	4.12	2.25	3,400,000
1948	220,145,821	22,045,707	8,199,173	13,846,534		13,846,534	4.07	3.00	3,400,000
1949	190,352,585	12,457,127	4,710,611	7,746,516		7,746,516	2.28	3.00	3,400,000
1950	199,009,491	19,385,773	8,248,225	11,137,548		11,137,548	3.28	2.55	3,400,000
1951	225,070,342	20,170,326	11,459,352	8,837,336(m)		8,837,336	2.61	2.40	3,400,000
1952	217,041,923	17,116,375	8,859,003	8,286,892(m)		8,286,892	2.44	2.40	3,400,000
1953	251,027,699	19,508,358	9,687,105	9,930,720(m)		9,930,720	2.93	2.40	3,400,000
1954	246,764,550	21,659,431	11,592,019	10,203,110(m)		10,203,110	3.01	2.40	3,400,000

NOTE:

(a) Federal taxes on income include excess profits taxes in years where applicable. (b) Based on shares of common stock outstanding at close of fiscal year. (c) Number of shares outstanding at close of fiscal year; common stock includes, where applicable, Company's own common stock held for re-sale carried as an asset. (d) Before provision of \$1,000,000 for trade conditions affecting raw materials market; reserve transferred to surplus during fiscal year 1921. (e) After providing \$550,000 for contingencies. (f) After providing \$450,000 for contingencies. (g) After providing \$222,447 for contingencies. (h) After including transfer of \$1,000,000 reserved for contingencies previously provided by charges to profit and to loss. (i) Net amount of income tax refundable due to carry back provisions of the Internal Revenue Code. (j) Par value of \$100 per share. (k) After giving effect to exchange of each share of 4 shares for one. (l) After adjustment for minority interest. (m) After stock split-up on the basis of 4 shares for one. (n) After adjustment for minority interest.

LEGEND

- SHOE FACTORY
- ▲ TANNERY
- ★ WOOD HEEL COVERING PLANT
- COTTON TEXTILE MILL
- ◆ RUBBER PLANT
- ☒ SOLE CUTTING PLANT
- ☆ WAREHOUSE
- ◆ WELT MANUFACTURING PLANT
- ▣ GENERAL OFFICES—ST. LOUIS, MO.
- ◎ GENERAL OFFICES—MANCHESTER, N. H.
- ⊕ GENERAL OFFICES—THE FLORSHEIM SHOE COMPANY—CHICAGO, ILL.
- GENERAL OFFICES—SAVAGE SHOES LIMITED—PRESTON, ONTARIO, CANADA.



SALES DIVISIONS

CHICAGO
The Florsheim Shoe Co.

MANCHESTER, N. H.
Great Northern Shoe Co.
Hampshire Shoe Co.
Sundial Shoe Co.

ST. LOUIS

Accent Shoe Co.
Conformal Footwear Co.
Continental Shoemakers

Dorothy Dodd Shoe Co.
Export
Friedman-Shelby
Hy-Test

Pennant Shoe Co.
Peters
Queen Quality Shoe Co.
Roberts, Johnson & Rand

Sentinel
Vitality Shoe Co.
Winthrop Shoe Co.

**INTERNATIONAL
SHOE
COMPANY
LOCATIONS...**

LOCATION OF SHOE FactORIES AND SUPPLY PLANTS

MISSOURI
Belle
Bland
Cape Girardeau
De Soto
Dexter
Eldon
El Dorado Springs
Fulton
Hamilton
Hannibal

Hermann
Houston
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
Richland
St. Clair

St. James
Ste. Genevieve
St. Louis
Salem
Sikeston
Sullivan
Sweet Springs
Vandalia
Washington
West Plains
Windsor

ILLINOIS
Anna
Chester
Chicago
Evansville
Flora
Jerseyville
Mt. Vernon
Olney
Quincy
Springfield
Steeleville

ARKANSAS
Bald Knob
Batesville
Conway
Malvern
Russellville
Searcy

NEW HAMPSHIRE
Claremont
Manchester
Nashua
Newport

ONTARIO CANADA
Fergus
Galt
Kitchener
Preston

**LOCATION
OF TANNERIES**

South Wood River, Illinois

St. Louis, Missouri

Manchester, New Hampshire

Philadelphia, Pennsylvania

Bolivar, Tennessee

Marlinton, West Virginia

The Company's principal plant facilities include:

MANUFACTURING PLANTS

SHOE Factories	64	Manufacturing Men's, Women's, and Juvenile shoes.
SOLE CUTTING PLANTS	5	Producing leather outsoles, insoles, midsoles, counters.
HEEL PLANT	1	Building leather heels.
RUBBER PLANTS	2	Manufacturing rubber soles and heels.
COTTON TEXTILE MILL	1	Producing cloth for shoe linings.
WELT MANUFACTURING PLANT	1	Producing leather weltling.
CHEMICAL PLANTS	2	Producing finishes, waxes, polishes and cements.
BOX PLANT	1	Producing cartons and containers.
WOOD HEEL COVERING PLANT	1	Covering and finishing wood heels.
LAST REMODELING PLANT	1	Last remodeling.
FINDINGS PLANT	1	Producing stripping, piping, bows, box toes and other shoe findings.
DISPLAY SHOP	1	Producing display items for shoe stores.

TANNERIES

UPPER LEATHER TANNERIES	6	Tanning shoe upper leather.
SOLE LEATHER TANNERIES	2	Tanning shoe sole leather.

SUPPLY PLANTS

UPPER LEATHER SUPPLY PLANTS	2	Warehousing, grading and distributing upper leather to shoe factories.
CENTRAL SUPPLY PLANTS	2	Distribution center for shoe findings, materials and supplies.
CENTRAL MACHINE SHOP	1	Repairing and building machinery and equipment.

WAREHOUSES

FINISHED SHOES	10	Warehousing, order filling and shipping of finished shoes.
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**PLANT
FACILITIES...**

in operation at year-end was sixty-four.

The two factories closed during the year were located in St. Louis, Missouri and Belleville, Illinois. They were built over forty years ago. Operations at both of these plants were adversely affected in recent years by the abnormal turnover of employees, resulting in a steady decline in productivity to a very low level.

Buildings containing approximately 200,000 square feet of floor area with railroad facilities accommodating eight freight cars were leased from the Topeka Industries of Kansas by Continental Service, Inc., a wholly-owned corporate subsidiary formed for the purpose of handling all activities relating to receiving and

forwarding shoes for our largest customer.

The Company's new 70,000 square-foot processing plant for rubber composition soling and heelng material at Bryan, Texas began operations in May. This new plant, on which construction began in 1953, is, to the best of our knowledge, technologically the most up-to-date plant of its kind.

One of the Company's buildings at Hartford, Illinois was leased to Lefatex, Inc., the corporate subsidiary which was formed to manufacture leather fibreboards. Preparation of this building for use by the new corporation is nearing completion.

During the acute housing shortage immediately following World War II, our Company acquired 110 homes at a cost of \$850,000 in new plant communities to provide places to live for supervisory personnel. At year-end approximately one-half of these homes had been sold, mostly to employees. The Company is gradually disposing of the remainder.

PRODUCTION SUMMARY

Our company's principal production is shoes.
During 1954, we produced:

SHOES

For Men and Boys	Pairs	15,513,458
For Women and Girls	Pairs	15,140,422
For Children	Pairs	18,796,153
House Slippers	Pairs	1,325,279
	Total	50,775,312

of this type of production our Company sold \$246,764,550

However, our Company carries on a vast amount of other production of things used in the manufacture of shoes. During 1954 we produced:

MATERIALS FOR SHOE UPPERS

Leather for Uppers (including Linings) from Cattle Hides and Lambskins (Calfskins and Goatskins tanned under contract not included)	Feet	63,043,767
Cloth for Linings from Cotton	Yards	4,252,235

This type of production had an aggregate value of \$18,961,198

MATERIALS FOR SHOE BOTTOMS

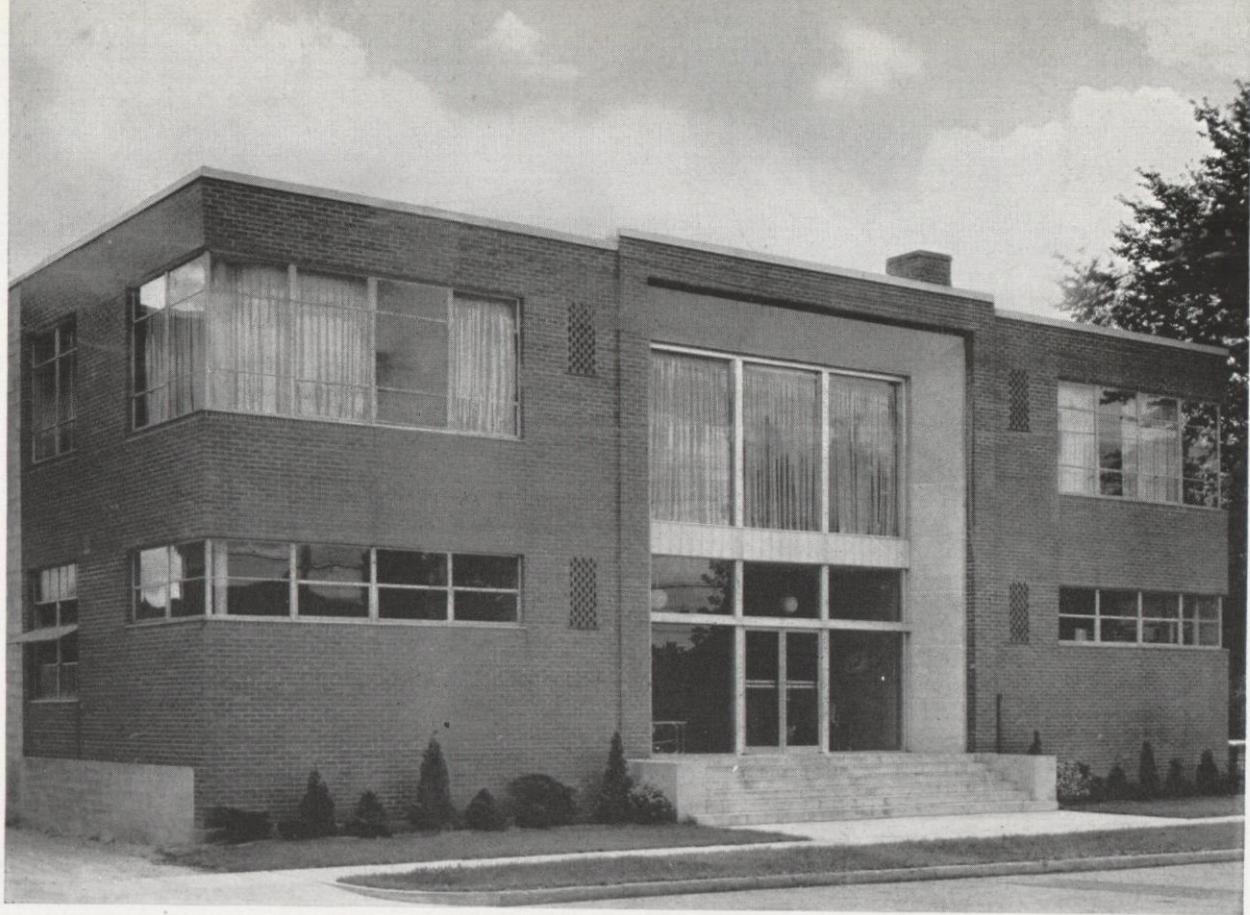
Soles, of Leather (some shoes take several soles)	Pairs	41,189,811
Soles, of Rubber	Pairs	14,344,808
Counters, of Leather	Pairs	17,796,077
Heels, of Leather (some shoes take leather and rubber heels)	Pairs	3,647,000
Heels, of Rubber	Pairs	21,297,219
Leather, for soles from Cattle Hides	Pounds	10,296,799
	Feet	9,005,665
Welting, Leather	Yards	14,065,846

This type of production had an aggregate value of \$27,098,920

OTHER MATERIALS AND SUPPLIES used in shoes and for fastening, making and packaging shoes

Boxes, Box Toes, Cartons, Cements, Chemicals, Patterns and others	Not Itemized	
Total Value of Production — Shoes and Materials and Supplies		\$301,586,954

This type of production had an aggregate value of \$8,762,286



Headquarters of Savage Shoes Limited.

Savage Shoes Limited

On September 24, 1954, our Company acquired 100% of the outstanding common stock of Savage Shoes, Limited of Canada. The company, which traces its origin back to 1922, is the largest shoe manufacturer in Canada. It operates six plants producing a complete line of children's and some growing girls' shoes. Its general offices, warehouse and three manufacturing plants are located in Preston, Ontario. Other plants are in Galt, Kitchener and Fergus. The annual volume approximates 2,500,000 pairs of shoes. Employees number about 1,000. The company distributes its shoes throughout Canada principally through some 1,800 independent retail dealers. Its annual sales approximate \$7,000,000.

No change was made nor is any contemplated in the management of Savage Shoes, Limited. Laurence M. Savage, C. Reg Kidner and John S. Malcolm continue in the same positions they have occupied in supplying top managerial ability.

Your management believes that our Company has acquired a sound business which will provide an excellent entry into the Canadian

market. It has been operated under policies and methods strikingly similar to our own. Its lines of children's and growing girls' shoes are sold under advertised brands well established with retailers and consumers throughout Canada. Our observations are that the company has a high degree of ability at all management levels. Its top officers are highly respected individuals in business and social circles in which they move.

Research

Product and Process Development Division

Investigations by our Product and Process Development Division covered many fields in 1954. Materials and processes used in the manufacture of shoe component parts, as well as the parts themselves, were under continual examination. About 150 ideas and suggestions were analyzed. Among the fields covered were: Waterproofing of upper and sole leathers; new box toe materials; new counter materials; unique rubber and plastic type materials for shoe insoles and outsoles; and various types of doubler materials. In addition, many types of

orthopedic constructions were analyzed. Also investigated were German and French cements, as well as shoe manufacturing machinery from Germany, Italy, France, Spain and England.

A project which will provide a much more advantageous use of one by-product resulted from analyses of by-product usage. Several other projects are under consideration.

Joint development programs with other leading companies and research facilities were initiated during the year, providing the many advantages of cooperative effort.



Rubber, artificially aged, is flex-tested in laboratory at Hannibal, Missouri, rubber sole and heel plant.

Market Research

Market Research, organized as a separate department in 1952, has proved a valuable aid to the sales division executives responsible for obtaining adequate distribution for our Company's product. The work of this department has pointed up sales potentials, style trends, retailers' likes and dislikes and similar items assisting in effective sales direction.

General Research

Among the general research which is carried on regularly in virtually all parts of the Company, the feasibility of the use of high-speed electronic computers and other automatic data processing machinery, in certain phases of our business, has been under study for some months. Outside professional consultants with considerable experience in the use of these devices have been employed to assist in these studies.

Training Programs

Our Company's supervisory and sales employees, its customers and their salespeople continue to benefit from the training programs inaugurated in 1952 and 1953.

Forty-seven sales trainees have completed classroom studies comprising comprehensive knowledge of our Company, its policies and its product, and are now getting on-the-job training in the field by traveling with experienced salesmen.

Plant supervisors are brought into group meetings at regular intervals for the purpose of orientation and re-orientation in Company policy with respect to the matters under their control and, with respect to which at the point of contact, they are "the Company." Employee relations, community relations, union contracts, grievance procedures, cost and product finesse are among the many subjects included in these seminars.

Sectional conferences and discussions are held regularly at which retail store owners and their sales personnel, operating under the Merchants Service and Shoenterprise plans, discuss subjects of interest to them in their highly competitive field. In an atmosphere of friendliness and service there is an exchange of ideas on stock control, shoe fitting and the many problems of successful shoe retailing.



Company representatives discuss sales techniques with shoe store owners at conference in Los Angeles.

Our People

Fine relations with the Company's 38,000 employees continued through 1954. During 1954 our employees benefited from the accident and health, hospital and surgical program which the Company undertook to provide under principal employee contracts. At the beginning of the year an additional week for a total of three weeks' vacation went to 15-year employees. Other benefits established in prior years continued including one week or two weeks' vacation, paid holidays and life insurance.

Our Plant Communities

Public relations at the community level continued at a brisk pace during the past year. Company representatives spoke before service clubs and civic groups in most of our plant cities. Feature stories and news articles concerning plant activities were carried in newspapers and on radio and television programs. School teachers were our guests at Business-Education Days in many plant communities. Businessmen and members of civic organizations took advantage of our plant tours. Open houses and displays at county fairs permitted several hundred thousand people to see our International shoes



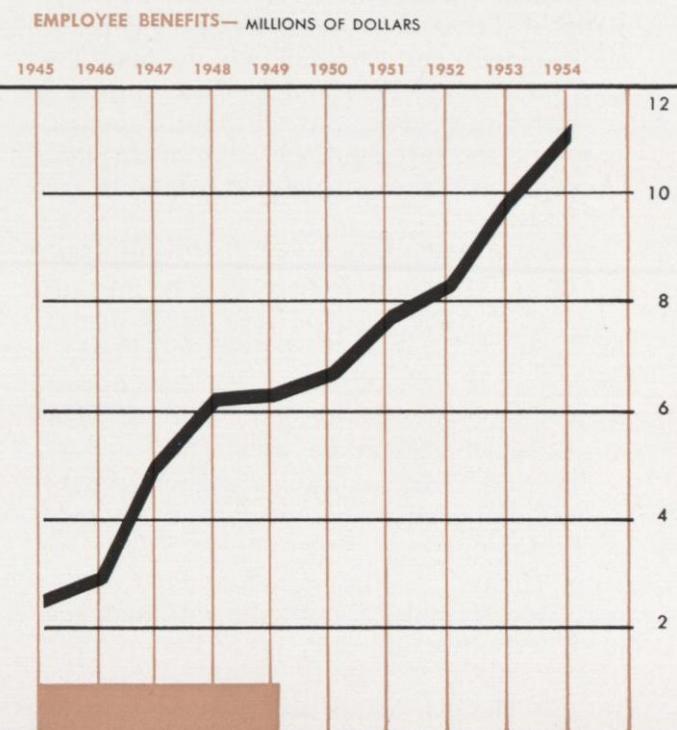
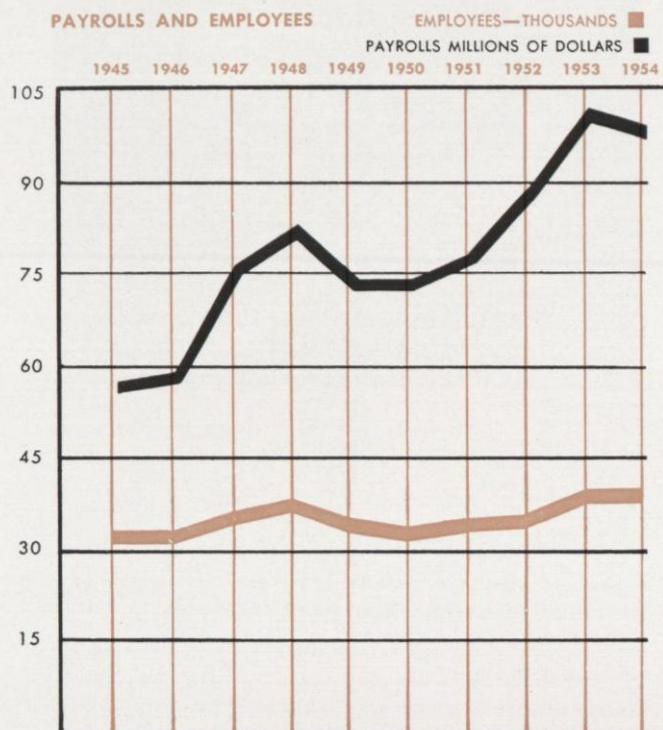
Business-Education Day brings together school teachers and plant management at one of our Jefferson City, Missouri, shoe factories.

produced or view displays showing our manufacturing processes.

Our community activities have served to personalize the Company to the citizens of the areas where we operate manufacturing units.

Our Customers

The success of the Company's program for aiding the independent merchant was demonstrated this year when Carl Wattier, an independent shoe retailer in Portland, Oregon, became the 1,000th member of our Merchants Service Plan. To mark the event, Mr. and Mrs. Wattier were guests of the Company for four



OUR
PEOPLE



Mr. and Mrs. Carl Wattier being welcomed at airport in St. Louis by Company officials.

days. During this period they visited shoe manufacturing plants of the Company and discussed merchandising and sales policies with top Company officials.

When Mr. Wattier was in St. Louis he expressed his views on the effectiveness of the Merchants Service Plan in these words: "This is a very happy occasion for me. The fact that my fourth Merchants Service Store is International's 1,000th is indisputable evidence of the soundness and workability of the plan. Unquestionably the help and guidance provided by Merchants Service has contributed immeasurably to the successful operation of my three stores and will prove equally as helpful in this, my fourth."

When Mr. Wattier became the 1,000th member of the Merchants Service Plan he operated four stores in the Portland area. Since then he has opened a fifth unit, and plans to open a sixth store in the near future. All units operate under Merchants Service and feature the shoes of one of our general line branches.

For more than twenty years the Merchants Service Department has operated as a retail consulting division of International Shoe Company. It exists to help the independent retailer plan and develop a profitable business year after year. Stock control, perpetual inventory and simplified accounting plans are provided without charge. Audits and analyses help the growing merchant.

Merchants Service is staffed by thoroughly experienced retail shoe men. They have been trained to aid retailers in any phase of the business. As consultants they are available at all times at no cost.

From its inception our Company has put service to its independent retail customers foremost along with the quality of its product.

Shoenterprise Corporation was organized by International Shoe Company in 1950 to aid in setting up independently owned and operated retail outlets.

Shoenterprise came into being to stem a threat against the independent retailer. That threat was the higher capital needed by a young man to open or to purchase an independent store of his own. The Shoenterprise plan financially aids the man of vision, experience and energy, who lacks capital to get into business for himself. He retires his loan to become a completely independent shoe store owner, with no strings attached.



One of the many shoe retailers assisted by Merchants Service Plan—Chapman's, Seattle, Washington.

Shoenterprise helps a prospective shoe merchant in many ways in addition to financing. It helps him plan his store, his location, his stock, his personnel, his advertising, his merchandising—in fact, almost anything pertinent to opening and running a successful independent shoe store.

Stockholders

At year-end 13,153 stockholders were the owners of the 3,400,000 shares of the Company's common stock. During the year approximately 100 new names were added to the list of stockholders.

Our stockholders live in all of the 48 states, District of Columbia and a number of foreign countries. They include people from all walks of life—housewives, businessmen, teachers, clerks, factory workers, as well as churches, hospitals, universities and charities and many others.

The analysis by types of stockholders and amount of holdings shown on this page reflects

the position of the stockholders at year-end. Approximately 60% of the stockholders own 50 shares or less while only 20% own more than 100 shares each. No single individual or organization owns as much as 3%.

The management feels a keen sense of responsibility to those who have invested in the Company and strives to merit their confidence.

* * *

The Company's annual report to stockholders for 1953 was awarded a silver "Oscar" by the Financial World for the best report in the consumer goods classification as well as a bronze "Oscar" for best in the shoe and leather industry.

STOCKHOLDERS	Holders	%	Shares	%
Women	5,183	39.4	1,119,990	32.9
Men	4,287	32.6	1,172,002	34.5
Joint Accounts	2,441	18.5	165,688	4.9
Fiduciaries	845	6.4	505,769	14.9
Investment Trusts	23	.2	85,693	2.5
Companies	59	.4	76,873	2.3
Insurance Companies	9	.1	20,080	.6
Churches—Hospitals—Universities—Charities	87	.7	58,611	1.7
Brokers	219	1.7	195,294	5.7
TOTAL	13,153		3,400,000	
<hr/>				
SHARES	1-25	26-50	51-100	101-200
HOLDERS	5,036	2,862	2,674	983
	38.3%	21.8%	20.3%	7.5%
			Over 200	1,598
				12.1%

**Advertising
and Sales
GO HAND-IN-HAND**

**television
and
radio**

To pave the way for consumer acceptance of our famous children's brands, three of the top juvenile TV programs are being sponsored on the full NBC network. In addition, dealers throughout the country place local spots on both radio and television. This combined advertising coverage provides one of the most powerful tools for successful selling today.

**newspapers
and Sunday
supplements**

Daily newspapers are still a dominant force in guiding American buying habits. Newspaper advertisers are able to tell their customers where to buy nationally advertised brands. That's why International, each year, runs thousands of newspaper ads throughout the country, tying in the dealer's name and address where the advertised brands may be purchased. In addition national ads listing dealer names have been successfully run in THIS WEEK and PARADE, two outstanding Sunday newspaper supplements.

**national
magazines**

Magazines are the longest-lived of all important media. Their primary target is the home . . . the nucleus for shoe sales. Since leading national magazines reach this potential, we place many of our advertising messages in these publications. In fact, we are one of the top 100 leading national magazine advertisers in America.

International also offers its dealers complete merchandising programs. This includes Outdoor Advertising, Direct Mail, Window Displays, Premiums, Training Films, and many other specialized promotions. All of these play an important part in helping to sell our shoes.



THE FLORSHEIM SHOE COMPANY

Chicago, Illinois

DIRECTORS

Simeon F. Eagan	Weldon P. Magee
Harold M. Florsheim	Robert O. Monnig
Irving S. Florsheim	Oswald M. Pick
Gifford P. Foley	Edgar E. Rand
Byron A. Gray	Henry H. Rand
Earl W. Gray	Clarence W. Schaaf
Richard A. Heider	Joseph B. Stancliffe
J. Lee Johnson	John W. Wallace

OFFICERS

Irving S. Florsheim, Chairman
Harold M. Florsheim, President
Clarence W. Shaaf, Vice-President & Secretary
Joseph B. Stancliffe, Vice-President
John W. Wallace, Treasurer
Simeon F. Eagan, Assistant Vice-President
Oswald M. Pick, Assistant Vice-President
Martin F. Maher, Assistant Vice-President
Betty B. Clayburn, Assistant Secretary

SAVAGE SHOES LIMITED

Preston, Ontario, Canada

DIRECTORS

C. Reg Kidner	Edgar E. Rand
John S. Malcolm	Henry H. Rand
Robert O. Monnig	Laurence M. Savage

OFFICERS

Laurence M. Savage, President
C. Reg Kidner, Vice-President & Sec.-Treas.

OFFICERS

and

DIRECTORS

of

PRINCIPAL

SUBSIDIARY

CORPORATIONS

SHOENTERPRISE CORPORATION

Saint Louis, Missouri

DIRECTORS

Edgar S. Bland	Robert O. Monnig
Carl E. Brueckmann	Harold F. Oyaas
Karl E. Forvalder	Edgar E. Rand
Edward J. Hopkins	Henry H. Rand
J. Lee Johnson	Richard O. Rumer
Winston J. McClure	Fred J. Vogt
Albert V. Wheeler	

OFFICERS

Robert O. Monnig, President
Henry H. Rand, Vice-President
Winston J. McClure, Secretary
Carl E. Brueckmann, Treasurer

BURK BROTHERS

Philadelphia, Pennsylvania

DIRECTORS

William J. Banks	Edgar E. Rand
Gerard Kevil	Rezin H. Richards
George L. Woelfel	

OFFICERS

Edgar E. Rand, Chairman
Rezin H. Richards, President
George L. Woelfel, Vice-President & Gen. Mgr.
Warren P. Metz, Secretary-Treasurer

TWELFTH-DELMAR REALTY COMPANY

Saint Louis, Missouri

DIRECTORS

Carl E. Brueckmann	Robert O. Monnig
J. Lee Johnson	Edgar E. Rand
Henry H. Rand	

OFFICERS

Edgar E. Rand, President
Robert O. Monnig, Vice-President
Carl E. Brueckmann, Secretary-Treasurer

PRINCIPAL ADVERTISED BRANDS

Roberts, Johnson & Rand Sales Division

The RAND Shoe



Poll-Parrot
SHOES
For Boys and Girls
Reg. U.S. Pat. Off.

THE Trim Tread SHOE



Peters Sales Division

Velvet step
SHOES



CITY CLUB
SHOES for MEN

WESBORO

CITY CLUB JRS.

The Florsheim Shoe Company



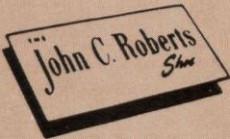
World's largest manufacturer of

Friedman-Shelby Sales Division

KINGSWAY

Grace Walker

Friedman - Shelby



Specialty Divisions

Acent! SHOES



WINTHROP JRS.
for boys

Queen Quality
SHOES

Vitality
SHOES

Dorothy Dodd
SHOES

WINTHROP
SHOES

Sundial Sales Division

Sundial Shoes
FOR ALL THE FAMILY



men's, women's and children's shoes

IN CANADA

Savage Shoes Limited

Savage Shoes